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HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules are available from the Orderline. There is one for trusts.

- *IR270: Trusts and settlements - income treated as the settlor's*

Filling in the Trusts etc. Pages

Fill in the Trusts etc. Pages if you received any income in 1998-99 from a trust, settlement or the estate of a deceased person. These Notes tell you what to do.

Gather together the material you need, such as statements of amounts paid from the estate of a deceased person (prepared by the personal representative).

Income from trusts and settlements

■ **Beneficiaries**

boxes 7.1 to 7.6 If you are the beneficiary of a bare trust, that is one where you have an absolute right to the income and capital from the trust or settlement, do not include this income on the Trusts etc. Pages. This income is treated as belonging to you and not to the trustees, and should be included in the pages of your Tax Return that deal with the type of income concerned.

If you had an absolute right to income but not capital from a trust or settlement:

- do not enter any scrip dividends or foreign income dividends whether from UK companies, UK authorised unit trusts or open-ended investment companies. These should be included in boxes 10.21 to 10.29 on page 3 of your Tax Return. If the voucher shows only a total for dividends bearing non-repayable lower (20%) rate tax, include the totals in boxes 10.21 to 10.23
- do not enter income from foreign sources. This should be included on the Foreign Pages if you are resident in the UK
- exclude any trust income that you received gross, such as income from property. This income should be included in the pages of your Tax Return dealing with that particular source of income

- enter in boxes 7.1 to 7.3 income on which tax has been paid at the basic (23%) rate. Enter in box 7.1 the actual income to which you are entitled, in box 7.2 the Income Tax deducted, and in box 7.3 the income before tax (the 'taxable amount')
- enter in boxes 7.4 to 7.6 income from which tax has been deducted, or which has a tax credit, at the lower (20%) rate. Enter in box 7.4 the actual income to which you are entitled, enter in box 7.5 the tax deducted or the tax credit and enter in box 7.6 the income before tax (the 'taxable amount').

The trustee will be able to tell you which types of income have been received on your behalf.

If you did not have an absolute right to income from a trust or settlement and the trustees **are resident** in the UK for tax purposes, enter in box 7.1 the actual income you received, enter in box 7.2 the Income Tax deducted and enter in box 7.3 the income before tax. You can get these figures from the tax voucher provided by the trustees. If you wish to claim relief under Extra Statutory Concession B18, contact:

Financial Intermediaries and Claims Office (FICO)
 St John's House
 Merton Road
 Bootle, Merseyside,
 England
 L69 9BB.
 Telephone 0151 472 6000

If you did not have an absolute right to income from a trust or settlement, and the trustees **are not resident** in the UK for Income Tax purposes, no entry should be made on the Trusts etc. Pages. Instead, fill in the Foreign Pages. The exception to this is if you wish to claim relief under Extra Statutory Concession B18. In this case contact the Financial Intermediaries and Claims Office (FICO) at the address in the preceding paragraph.

■ **Settlors**

boxes 7.1 to 7.3 A settlement includes a trust, covenant, disposition, arrangement or transfer of assets. If you have directly or indirectly provided funds for a settlement, its income may be treated as yours for tax purposes. This may apply if:

- you or your spouse can benefit immediately or in the future from the capital or income of the settlement, **or**
- capital or income of the settlement is paid to, or for the benefit of, your unmarried child or stepchild while that child is under the age of 18, **or**
- the settlement is a covenant for payments to charity (this covenant must not be for longer than three years), **or**
- you or your spouse have received a loan or repayment of a loan from the trustees of the settlement.

If you think one of these situations may apply to you, please ask the Orderline for *Help Sheet IR270: Trusts and settlements - income treated as the settlor's*.

How you include the income on your Tax Return depends on whether or not the trust document gives you an absolute entitlement to the income of the trust. If it does, then only the Trust Management Expenses deducted in arriving at your income have to be deemed to be yours - all the other income is already yours. If it does not, then all the income has to be deemed to be yours.

If the trust document does give you an absolute entitlement to the income (but not capital) of the trust, then follow the instructions for boxes 7.1 to 7.6 under the heading 'Beneficiaries' on page TN1. In addition, you will need to make an entry in boxes 13.1 to 13.3 on page 4 of your Tax Return. The guidance on *Help Sheet IR270* tells you how to calculate the entries for these boxes. If the trust document does not give you an absolute entitlement to the income, enter in box 7.1 the actual income without deducting the Trust Management Expenses; in box 7.2 the Income Tax deducted from it or the tax credits attached to it, and in box 7.3 the income before tax.

Income from estates of deceased persons

■ Specific legacies

You do not pay tax on specific legacies of assets or money. Do not include these on the Trusts etc. Pages. If the asset is one that produces income (for example a bank account, or property which is let), and you are entitled to that income from the date of the person's death, it should be included in the part of your Tax Return that deals with the type of income concerned. Rent from a property which is let, for example, should be included in the Land and Property Pages of your Tax Return. If you received interest on an unpaid legacy, or a legal rights claim in a Scottish estate, include it in boxes 10.12 to 10.14 on page 3 of your Tax Return.

■ Residuary beneficiaries

Special rules apply to income from a deceased person's estate which is paid to beneficiaries who have an interest in the residue. The residue is the amount remaining after the personal representatives have provided for all legacies and expenses of the estate. (The personal representative is the executor or administrator of the deceased person.)

Residuary beneficiaries are entitled to get from the personal representatives a statement setting out the amount of any payments to them treated as income and the tax treated as paid on it. That information will enable you to complete the Trusts etc. Pages as described below. You should enter the name of the estate(s) in the 'Additional information' box on Page T1 or T2.

● Limited interests

boxes 7.7 to 7.18 If you only have an interest in the income of the residue (for example, if you are a life tenant or liferenter) enter the amounts paid to you from the estate in 1998-99 in:

- box 7.7 if they have been taxed at the basic (23%) rate, **or**
- box 7.10 if they have been taxed at the lower (20%) rate.

If the administration of the estate was completed during the year and amounts were payable to you, but were unpaid at that time, they should also be included in:

- box 7.7 if they have been taxed at the basic rate, **or**
- box 7.10 if they have been taxed at the lower rate,

unless your interest is in a foreign estate (see page TN3). The tax should be entered in box 7.8 or 7.11 as appropriate and the amount of income before tax in box 7.9 or 7.12.

Income taxed at the lower rate will be separately identified in the statement prepared by the personal representatives.

● Absolute interests

If you have an interest in the income and capital of the residue, you are treated as receiving an amount of income. This is based on your share of the estate income, after deducting expenses chargeable to income. If you received payments in 1998-99 from an estate, your income will be either the payments you have received in 1998-99, or the income you have received for all the years (if it has not already been taken into account in earlier years), whichever is the lower amount. If the administration of the estate ended in 1998-99, you should be treated as having received both the income arising in that year and any estate income which has not already been treated as your income for earlier years.

The personal representatives will supply you with a statement showing the amount of income that should be included on your Tax Return. The statement for a UK estate will show whether the income has been taxed at the basic rate or at the lower rate of tax and, where appropriate, will show that the tax at either or both rates is not repayable. Enter the net amount of:

- income taxed at basic rate tax in box 7.7
- income taxed at lower rate tax in box 7.10
- income taxed at lower rate when the tax is not repayable in box 7.13
- income taxed at basic rate when the tax is not repayable in box 7.16.

Enter the amounts of tax shown on the statement in:

- box 7.8 for basic rate tax
- box 7.11 for lower rate tax
- box 7.14 for non-repayable lower rate tax
- box 7.17 for non-repayable basic rate tax.

Enter in boxes 7.9, 7.12, 7.15 and 7.18 the taxable amounts (net amount plus tax paid) shown on the statement under each of these headings.

Income that accrued during the lifetime of the deceased person but which was paid after their death may have been taken into account as part of their estate for the purposes of Inheritance Tax and as estate income for Income Tax purposes. If you are treated as having received income from an estate where this happened, and you are liable to tax at the higher rate, there is a special tax relief available which has the effect of reducing the amount of income that you are treated as having received from the estate. If you think this applies to you, contact your Tax Office or tax adviser.

● Discretionary interests

You may have an interest in residue that arises because the personal representatives have exercised their discretion in your favour. If so, you should enter the total amount paid to you in 1998-99 in boxes 7.7 to 7.18.

- Foreign estates

A foreign estate is one where the income of the estate has not borne full UK tax because the personal representatives are not resident and not ordinarily resident in the UK or because the deceased person died domiciled outside the UK and overseas income arose to the estate. If you have received income from such an estate, you should enter the whole amount both in box 7.7 and in box 7.9. No entry should be made in box 7.8 for tax deducted. However if the foreign estate has been charged to UK Income Tax, the amount of income entered in both boxes 7.7 and 7.9 will need to be reduced proportionately by the following amount:

$$\frac{\text{net amount of income that has borne UK tax}}{\text{total estate income less UK tax}} \times \text{total estate income before UK tax}$$

You should subtract the above amount from the figure to be entered in box 7.7 and 7.9.

- Successive interest in residue

Successive interests in residue can arise because, for example, an interest is disclaimed or varied by the original beneficiary. The later interest in residue is treated as having existed from the date of death. This ensures that each beneficiary is taxed on the share of the estate income that is actually paid to them. Therefore, when completing boxes 7.7 to 7.18, you should include the whole estate income that is paid to you even if it relates to periods before you held the interest in residue.

- Foreign tax paid

box 7.19 If you have received income that is chargeable to UK tax but which has also been taxed in a foreign country, you may be entitled to claim credit for the foreign tax paid in calculating your UK tax liability. This is known as 'tax credit relief'.

Tax credit relief will usually be beneficial, but if you do **not** want to claim it you can deduct the foreign tax paid on your income instead. **But you cannot claim tax credit relief and a deduction for the same item of income.**

Enter in box 7.19 the total foreign tax paid for which you are **not** claiming tax credit relief.

If you **want** to claim tax credit relief, fill in the Foreign Pages, and leave box 7.19 blank.